

Message Text

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ACTION EB-04

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 9699

C O N F I D E N T I A L LIMA 3449

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, PE, MASS

SUBJECT: PERU AND THE IMF

REF: (A) STATE 100020, (B) STATE 091084, (C) LIMA 3167

1. REF (A) IS HELPFUL TO US HERE. IT WAS NOT ENTIRELY CLEAR FROM REF (B) JUST HOW WE HAD RESPONDED TO THIS LATEST PLEA FOR HELP IN PERSUADING THE IMF TO MODERATE ITS CONDITIONS. (PARA 3 OF REF (A) DOES NOT SPECIFICALLY SEEM TO REFER TO THAT POINT.)

2. THE PERUVIANS, WHO ALONG WITH OTHER LATIN AMERICANS TEND TO THE BELIEF THAT THE USG CONTROLS THE FUND, HAVE BEEN AFTER US FOR ABOUT A YEAR NOW FOR HELP IN ARGUING THEIR CASE BEFORE THAT INSTITUTION. (PRESIDENT MORALES BERMUDEZ RAISED THE REQUEST WITH PRESIDENT CARTER IN THEIR TALK LAST SEPTEMBER.) WE AT THE EMBASSY HAVE CONSISTENTLY RESPONDED -- INCLUDING TO THE PRESIDENT, THE FOREIGN MINISTER AND THE MEMBERS OF THE GOP ECONOMIC TEAM -- THAT THE USG DOES NOT CONTROL THE IMF AND THAT THE FUND STAFF OPERATES ON AN INDEPENDENT, TECHNICAL BASIS REMOVED FROM OUTSIDE INFLUENCE. IN THE CURRENT SITUATION WE HAVE EMPHASIZED THAT GOP AGREEMENT WITH THE

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IMF IS THE FIRST PRIORITY.

3. WHAT WE HAVE NOT DONE, HOWEVER, IS TO TAKE A POSITION IN THE CONTROVERSY BETWEEN THE GOP AND THE FUND STAFF OVER THE SHAPE AND EXTENT OF THIS COUNTRY'S AUSTERITY PROGRAM. OSTENSIBLY AT LEAST, THE PERUVIANS AGREE THAT INTERNAL AND EXTERNAL FINANCIAL BALANCE MUST BE RESTORED

THROUGH AN EFFECTIVE PROGRAM AGREED UPON WITH THE IMF.
(AND, ALTHOUGH ALL OF US TEND TO LOSE SIGHT OF IT, A
CONSIDERABLE DEGREE OF AUSTERITY HAS ALREADY BEEN IMPOSED
ON THIS COUNTRY, AS THE ACCELERATING LABOR CONFLICTS AND
DEPRESSED PRIVATE SECTOR ACTIVITY TESTIFY.) WHAT IS AT
ISSUE IS THE PACE AND SEVERITY OF THE PROGRAM. THE
PRESIDENT AND HIS COLLEAGUES HAVE ARGUED IN ESSENCE THAT
THE FUND GIVES INSUFFICIENT WEIGHT TO SOCIAL AND
POLITICAL COSTS; AND THAT A MORE MODERATE AND GRADUAL
PROGRAM THAN THAT ADVOCATED BY THE FUND CAN BE PURSUED
WITH EVENTUALLY ACCEPTABLE RESULTS.

4. THE EMBASSY HAS NEITHER OFFERED THE GOP ANY JUDGMENTS
ON THE MERITS INVOLVED IN THIS CONTROVERSY NOR
REACHED DEFINITIVE PRIVATE CONCLUSIONS ON THE REAL LIMITS
TO AUSTERITY IN PERU UNDER THIS GOVERNMENT. WE DO NOTE
THAT A WEAK GOVERNMENT, DEPENDENT ON A DIVIDED AND BICKERING
MILITARY INSTITUTION, FACES AN EXTRAORDINARILY DIFFICULT TASK IN
TRYING SIMULTANEOUSLY TO IMPOSE HARSH AUSTERITY MEASURES AND
RESTORE POLITICAL FREEDOM IN A COUNTRY AFFLICTED BY WIDESPREAD
POVERTY AND SOCIAL UNREST. WE ALSO NOTE THAT THE GOP'S DEPLORABLE
INDECISIVENESS, LACK OF CREDIBILITY AND PUBLIC CANDOR IN
DEALING WITH THE FINANCIAL CRISIS HAVE COMPOUNDED ITS PROBLEMS.

5. THE EMBASSY WILL CONTINUE TO URGE THE GOP TO RESUME
NEGOTIATIONS WITH THE FUND ASAP AS THE ESSENTIAL FIRST
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STEP IN PUTTING ITS FINANCIAL HOUSE IN ORDER. WE
SHALL ALSO CONTINUE OUR EFFORTS TO PERSUADE THE PERUVIANS
THAT THE USG IS NOT A PARTY TO THOSE NEGOTIATIONS.
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